MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

DAU 5024 – AUDITING 2

(All sections / Groups)

11 MARCH 2020
9:00 a.m. – 12:00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 9 pages with 5 Questions only.
2. Answer **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

QUESTION 1

You are the new audit assistant in charge of the audit of Baker & Grain Berhad, which manufactures breakfast cereals. The company has been trading for 20 years and operates from one central site which includes one factory, one warehouse, and one administration office. The company year-end is 30 June 2019. Your audit senior provides you a narrative description which explain the sales system of Baker & Grain Berhad. You are required to understand the company's internal control before the field audit commence.

Customers may place their order via email, telephone or walk-in order. Lily, the sales order clerk is responsible to process the customer's order. She entered each of the order detail into the sales system and generate one picking ticket and three copies of pre-numbered sales order. The system automatically checks the goods availability in warehouse. Lily will inform the customer if the company unable to fulfill the order. One copy of sales order form is sent to shipping department, another copy is sent to billing department and Lily keeps the third copy. Picking ticket is sent to warehouse department.

Baker & Grain Berhad has an approved price list, which is updated every 3 months. Customers who places huge order are entitled to a discount. Rosa, the sales ledger clerk is given access to change the price according to discounted price in master file data for sales prices.

The warehouse staff will pick and pack the goods based on the details written in picking ticket. Completed goods are sent to shipping department for delivery to customer. There are no records of transfer of goods in the warehouse.

Wilson, shipping staff receives good transfer from warehouse. He counts and checks the details of the goods with the sales order form. Prior to any delivery, shipping staff prepare delivery order form manually based on the details from sales order form. The delivery order is not sequentially numbered. Due to tight delivery schedule, the shipping staff does not always record the customer's signatures on delivery order as proof that the customer has received the goods. Customer receives a copy of delivery order for their record. All orders are delivered to customer within 5 days.

Once the good are delivered, a copy of delivery order is sent to billing department and another copy is kept in shipping department. Mary, the billing staff compares the details in sales order form and delivery order form before she prepares sales invoice manually. The sales invoice is not sequentially numbered. Due to the expansion of the company, and as there is large number of sale invoices, Lily have been asked to help out temporarily with preparing the sales invoices.

The company did not send monthly statement to customer and only reconcile the sales ledger control account at the end of June.

Required:

Identify and explain any **FIVE (5)** weaknesses of internal control in the company's sales system. For each weakness, explain the risk that may happened in the company.

Continued...

(Note: Use the table format below to write your answers)

No	Weaknesses	Explanation of risk
1.		
2.		
3.		
4.		
5.		

(20 marks)

(Total: 20 marks)

QUESTION 2

(a)

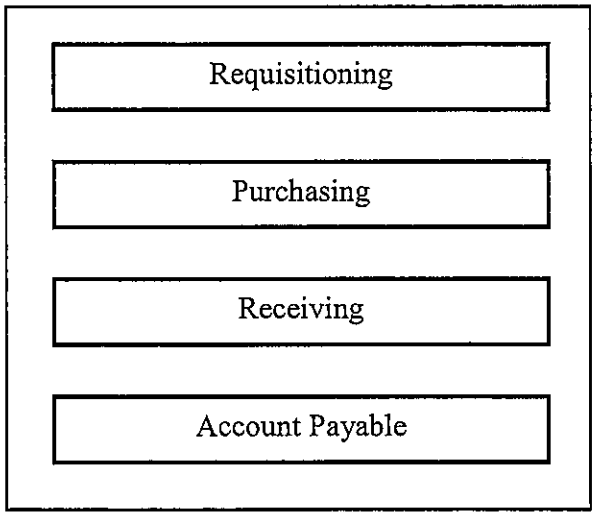

Figure 1

Figure 1 shows four major functions of purchasing procedures normally occurred in company.

Required:

Describe the activities involve in each purchasing function listed in **Figure 1**. (8 marks)

Continued...

(b)

Preparation of voucher package is important in a company's purchasing procedure. A voucher package contains relevant documents which are needed in purchasing procedures.

Required:

(i) Why company needs to prepare a voucher package?

(2 marks)

(ii) Identify **FIVE (5)** documents in voucher package and explain the purpose of each of the document.

(10 marks)

(Total: 20 marks)

QUESTION 3

PART A

- Analytical procedures
- Substantive test of transaction
- Substantive test of account balance

Figure 2

Figure 2 shows three different types of substantive test used by auditor to detect material misstatements contain in financial statements and supporting documents.

Required:

Differentiate **EACH** types of substantive test in **Figure 2.** (6 marks)

PART B

Johnson Manufacturing Berhad maintains sales journal and account receivable subsidiary ledgers for each of their customer. As the company's auditor, you plan to verify the sales transaction recorded in the account receivable subsidiary ledger.

Required:

Explain the substantive test of transaction you will perform to achieve the audit objectives below:

(i) Completeness of sales transaction.
(ii) Existence of sales transaction.
(iii) Cut-off of sales transaction.

Continued...

(Note: Use the table format below to write your answers)

Audit Objective	Substantive test of transaction
(i) Completeness of sales transaction.	
(ii) Existence of sales transaction.	
(iii) Cut-off of sales transaction.	

(6 marks)

Continued...

PART C

Figure 3 below shows one example of confirmation request may be used by auditor to verify accounts receivable.

Simon Engineering Berhad
P.O. Box 126
Kuala Lumpur

[Date]
Metal Industrial Sdn. Bhd.
35, Jalan Perindustrian Damai,
75450, Melaka.

Confirmation Request

Dear Sirs,

According to our records, the balance outstanding on your account as at 31 December [Year] was RM42,875.20. If this agrees with your records on that date, please sign this confirmation form in the space provided below and return it in the enclosed business reply envelope direct to our auditor:

Ryan & Co.
P.O. Box 243
Kuala Lumpur

If the balance does not agree with your records, please inform our auditor of the amount shown by your records, giving full details of differences, on the reverse side of this form.

Yours faithfully,
Simon Engineering Berhad

The amount shown above is correct
Signed: .....
Name: .....
(Company name and stamp)

Figure 3

Required:

(a) Name the type of confirmation request in **Figure 3** and explain its purpose.

(3 marks)

(b) Describe **TWO (2)** situations which enable auditor to use the same type of confirmation request in **Figure 3**.

(4 marks)

Continued...

(c) List **ONE (1)** audit objective which auditor is able to achieve by using confirmation request.

(1 mark)

(Total: 20 marks)

QUESTION 4

PART A

It is important for an auditor to consider the level of control risk before performing substantive procedures.

Required:

(a) Define control risk. (2 marks)

(b) Provide **THREE (3)** steps to assess the level of control risk in a company.

(3 marks)

PART B

As the audit assistant in charge of the audit of Panda Trading Berhad, you have been assigned by your audit senior to perform substantive test to verify the company's account payable balance as at 31 December 2019. You have required several documents from the accounting department such as account payable listing, supplier's monthly statements, general ledger and other related documents. You are planning to perform analytical procedure and substantive test of account balance.

Required:

(a) State **ONE (1)** analytical procedure you may perform to verify the account payable balance.

(2 marks)

(b) Explain substantive test of account balance you may perform to verify the following audit objective:

(i) Existence of account payable balance.
(ii) Right and obligation of account payable balance.

Continued...

(Note: Use the table format below to write your answers)

Audit Objective	Substantive test of account balance
(i) Existence of account payable balance.	
(ii) Right and obligation of account payable balance.	

(4 marks)

PART C

Verification of prepaid expenses such as prepaid insurance does not usually consuming a great deal of audit time compared to verification of fixed asset account.

Required:

(a) Do you agree with the above statement? Explain your reason.

(3 marks)

(b) Explain appropriate internal controls applicable to prepaid insurance account based on the following categories:

(i) Control over the purchases and recording of insurance.
(ii) Control over the insurance register.
(iii) Control over the write-off of insurance expense.

(6 marks)

(Total: 20 marks)

Continued...

QUESTION 5

PART A

- Fixtures and fittings
- Freehold land and buildings
- Plant and machinery
- Motor vehicles

Figure 4

Your firm is auditing the financial statements of South Manufacturing Berhad. You have been assigned to the audit of the company's property, plant and equipment (PPE) for the year ended 31 December 2019. **Figure 4** shows type of PPE accounts maintained by the company.

During 2019, the company purchased three new machines for production department and disposed one motor vehicle. The company provides you with a fixed asset master file and a schedule of recorded disposals for your reference.

Required:

(a) List **FOUR (4)** types of information normally included in fixed asset master file.

(4 marks)

(b) Explain how you will verify the existence of purchases for three new machines and the disposal of one motor vehicle in the company.

(Note: Use the table format below to write your answers)

Audit Objective	Substantive test of account balance
(i) Existence of purchases.	
(ii) Existence of disposal.	

(4 marks)

(c) State **ONE (1)** analytical procedure you may use to verify the depreciation expense of company's property, plant and equipment account.

(2 marks)

Continued...

PART B

Capital acquisition and repayment cycle is also known as financing cycle. Long term debt and owner's equity are the major sources of financing for most of companies. There are several characteristics that significantly influence the audit of capital acquisition and repayment cycle.

Required:

(a) What are the **TWO (2)** characteristics of the capital acquisition and repayment cycle that influence the audit of long term debt and owner's equity?

(4 marks)

(b) Provide **THREE (3)** audit procedures to examine the existence of long-term liability in a company.

(6 marks)

(Total: 20 marks)

End of Paper